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THE NEED FOR CURRENCY REFORM

Introductory Remarks
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President of the Academy

Addresses by
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United States Senator from Rhode Island, and Chairman, National Monetary Commission

HON. THEODORE E. BURTON
United States Senator from Ohio, and Member of the National Monetary Commission

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Assistant Secretary of the Treasury

HON. GEORGE E. ROBERTS
Director of the United States Mint

Session of the American Academy of Political and Social Science,
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PHILADELPHIA
THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
1911

Introductory Address by the President of the Academy, Dr. L. S. Rowe, of the University of Pennsylvania.

To anyone interested in watching the currents of public opinion in the United States there is none fraught with deeper meaning than the growing demand, becoming more insistent with each year, that certain great questions of national policy be removed from the domain of party strife and party politics. It represents a new attitude of an intelligent democracy towards its own national problems.

This new movement is due in part to a widespread dissatisfaction with the conditions that determine party strife in the United States, but in the main it is traceable to a recognition of the fact that with the increasing complexity of our social and economic conditions, many of the most important problems cannot be satisfactorily solved at the polls, but must first be submitted to those who by training and preparation are in a position to recommend to the country the proper course to be pursued. Control over corporations, the tariff and the currency question are problems which are gradually being eliminated from the domain of party politics.

The work that is being accomplished by the National Monetary Commission is placing the currency question in its true light before the country. The non-partisan spirit in which the Commission has considered this question commands the confidence of the country, and it is to its Chairman, the Honorable Nelson W. Aldrich, that we owe in large part this great national service.

I have the honor of presenting to you Senator Aldrich, Chairman of the National Monetary Commission.

Address by Hon. Nelson W. Aldrich,

United States Senator from Rhode Island and Chairman National Monetary Commission.

Ladies and Gentlemen:

The problem which has been submitted to the National Monetary Commission has several very important phases.

I shall confine my remarks to-night to suggestions with reference to one of these—that of desirable or possible modifications of our banking laws. My studies have led me to believe that this question of the reorganization of credit is of more immediate importance than the question of note issues. If we can once settle properly and fairly the kind of a financial or banking organization we are to have, I believe that the solution of the other will follow as a matter of course, and quite naturally. The two subjects are in a way inseparable. We can not, of course, in the end present a satisfactory plan, or a system that is worthy of being called complete without disposing of the question of note issues. But I propose to talk to you to-night very briefly upon "The needs of reform in our banking system."

The National Government, by the enactment of laws establishing the national banking system, and by the adoption of Government control of its machinery, has undertaken to safeguard the interests of the Government and of the people in this most important agency for our national development. I think there are very few people who now deny that the National Government has the power to establish a system of this kind and to provide suitable machinery for its operation. There have been in times past many people, and there are some now, who believe that the establishment by the National Government of a banking system, with banks of various kinds under Government supervision and control, is without the legitimate sphere of governmental action. I believe that a careful examination of the question should convince all of you that there is no other power that can successfully do this work; that it must be done by the National Government. The Federal Govern-

ment has created 7,000 or more fiscal agents, which it certainly had the right to do, and it has given these fiscal agents certain powers and responsibilities. It has given them valuable franchises, if you please, but it has also put them under careful restrictions, and, as I believe, this has all been done properly, but not always wisely.

Unfortunately many of the methods prescribed by law for the management and control of our national banks have become obsolete, and the failure of many others to effect the purpose for which they were designed has resulted in widespread loss to the people in every section of the country. In actual operation, the rigid provisions with reference to the holding and use of reserves, and those preventing legitimate expansion of credit in time of need, have been found to be very detrimental to the public interest.

The National Government having thus assumed control of the organization of credit, it is manifestly incumbent upon it to enter at the earliest possible moment upon such a revision of our national banking legislation as will make our methods and practices more responsive to the demands of our modern business life. Our present national banking system not only fails completely under stress and in the presence of unusual demands upon its resources, but under ordinary conditions it has been found inadequate and unresponsive.

There can be no better illustration of the structural weakness and practical defects of our national banking system than is shown by the relative growth of national banks and State banks and trust companies in the last twenty-five years. Within this period the number of national banks has increased 4,268 from 1884 to 1909, while the number of State banks and trust companies has increased 11,185. The capital and surplus of the State banks and trust companies have increased in the same time from $175,000,000 to $1,283,000,000, the relative increase being much greater than in the case of national banks. In many of our most important communities practically all of the banking business is now carried on by trust companies chartered by the States.

From this statement it is manifest that the State banks and trust companies are better organized to meet in competition the business demands of the communities in which they are located. This relative growth also demonstrates the fact that if we are to

have a comprehensive reorganization of credit we must within safe limits so liberalize national banking requirements as to character, functions, and inspection as will secure practical co-ordination in each of several classes of the banking institutions of the country. The Government must at least give to national banks a status and such advantages as will enable them to compete in every line of banking activity with the institutions chartered by the States.

Anyone who looks upon this matter in a broad way must realize that one of the problems we have in hand is to devise, if possible, some plan for the unification of our banking institutions into one comprehensive system, but this unification can not be effected, of course, by requiring all banks to become national banks, as the latter are now organized.

I am aware, of course, that this proposition of thorough reorganization involves great difficulties. I know the extent to which local prejudices, especially in some parts of the country, would affect even a calm discussion of the question, and I know that there would be an indisposition on the part of local banks to give up their State charters and come into a national system unless they could see clearly the advantages that would accrue from the change. Possibly some system could be devised by which the State charters could be held, with provision for governmental inspection.

We shall have to deal with a large class of State banks throughout the country who loan money upon real estate and receive time and savings deposits. We shall have also to consider the trust companies, that do all kinds of business—loan money upon real estate and upon collateral, act as trustees and guardians, and carry on the business of commercial banks and of savings institutions. Some of them do an underwriting and promoting business. In fact, it would seem that there are no regulations or limitations fixed by State legislation, in some States at least, as to the character or safety of trust company transactions.

It seems to me that in the public interest in every section of the country it is extremely desirable that if possible we have one national system with perhaps different classifications of banks. We might have one class like the existing national bank that would do the business of commercial banks; another class to be specifically designated by a different name that might do a savings bank business

in addition to a commercial business and that might loan money received from the time and savings bank deposits upon real estate within certain proper and safe limits. We might have another class of national trust companies. I do not believe that there is any trust company now in existence, if it had the opportunity to submit to national inspection, with the safeguards which a Government examination would give, that would be unwilling to consent to put themselves in line with other similar institutions throughout the country. Of course, as I say, this is a difficult problem. I may be too sanguine in my belief that the Commission will in the end be able to work out some method by which this can be accomplished.

While this comprehensive inclusion of all banking institutions in one general scheme is desirable, it is by no means essential for the successful organization of the general credit system of the United States.

The differences between the national banking organization in this country and the organization of credit in other commercial nations are even more radical and fundamental than those to which I have already alluded. For instance, elsewhere reserves are concentrated and used in any direction where needed, and the resources of all are available for the relief of any. In this country reserves are scattered and in times of trouble are not available either for purposes of assistance or defense. We have practically in this country a vast number of isolated units, each working within a limited circle for their own selfish interests. The intelligent managers of these individual banks generally recognize the necessity of greater co-operation and of organization, but are powerless to effect either on account of the restrictions and limitations imposed by our laws.

I have alluded to but few of the many particulars in which our banking methods are out of line with those in use elsewhere. No country in the world has a system as antiquated in many respects as the national banking system of the United States.

If we admit, as it seems to me we must, that the existing national system is fatally defective in many particulars, it is difficult to see how any plan of reform can be approved by thoughtful students of the subject that does not involve a more complete organization, a more thorough association, of the banks of the country. The

evolution which has taken place in the function of clearing-house associations may furnish an indication which may be useful in determining the character of the organization which will be found most effective. Clearing houses were first organized to facilitate the exchange of checks, and the settlement of balances arising from this exchange. The necessity of co-operation in other respects has led to the enlargement and extension of these functions until they now include concentrated action upon all the questions affecting the interests of members and of the particular community in which the association is located. But their influence and beneficial results are largely confined in each case to a very limited geographical area.

This evolution of the clearing house has been to me, as I am sure it must be to you, a most interesting subject. The New York clearing house in 1873 performed a great service to the country. The very able report which was made at that time by the clearing-house committee is in a certain sense a landmark in banking literature. From that time to this the recognized functions of clearing houses in various parts of the country have rapidly increased in number and importance.

But the fundamental defect in the clearing-house system as it now exists is that the beneficial results have been local and not general in their character.

In many ways the associations have been of very great benefit to their own banking community and, incidentally, to the people in the districts in which they were located; but they have not been able to prevent general bank suspensions or the destruction of credit in times of stress. The clearing house in Chicago or New York or Philadelphia may be perfect in its operation. They may take up every public question affecting their own section in a broad and liberal way, but the people of other sections may not be benefited in the slightest degree. If we are to have an efficient organization it should be along lines which are indicated by our clearing-house associations, but on a different scale and in a different manner.

There must, of course, be differences of opinion as to the character, extent, and powers of any new organization we might recommend. Perhaps a greater difference will be found to exist upon the question of whether we should have a great number of separate organizations in scattered districts throughout the country, varying

in character and responsibility, each acting independently, or whether we should have an organization of associations covering the entire country.

It is perfectly clear to me that any organization which shall receive general approval must fully recognize the rights and independence of existing national banks throughout the country. Any new scheme of co-operation and association must be super-imposed on existing banks and must not in any respect assume either the business or the functions of any of these. If we are to give the banks of the country and of every section an opportunity which can only be afforded by the General Government for association and co-operation, the result must be of such a nature as will be mutually beneficial to all banks and clearly in the interest of the people of the country as a whole. It must be an organization that will, as far as possible, insure reasonableness and steadiness of rates of discount throughout the country; that will prevent the possibility of bank suspensions in the future; that will extend to a bank in any part of the country, under proper circumstances, facilities which will enable it to afford relief at all times to those who are entitled to credit. It must provide against any possible disruption of domestic exchanges. It must be an organization which will have both the power and the purpose to maintain at all times, under all circumstances, the credit of the great people whose interests it is bound to serve.

IN INTRODUCING SENATOR BURTON, DR. ROWE SAID:

During the last few weeks the students of the University of Pennsylvania have had the privilege of listening to a course of lectures upon the subject of "The State and Corporations" by one whose scholarship is as broad as his statesmanship. As a member of the National Monetary Commission he has made quite as deep a study of the currency question as of the corporation problem, and I have the honor of presenting to you the Honorable Theodore E. Burton, United States Senator from Ohio, who will speak to us on "The Present Monetary Situation."

Address by Hon. Theodore E. Burton,

United States Senator from Ohio, and Member of the National Monetary Commission.

Ladies and Gentlemen: An examination of the subject of currency reform will fail to convince us of the necessity of any increase in the aggregate volume of money in circulation. With one exception, that of France, the quantity of money per capita in the United States is greater than in any prominent commercial nation in the world. On December 31st last, the average per inhabitant in this country was $35.21. In France, it is $37.85, due principally to the fact that the use of checks as substitutes for currency is much less. If we include with the amount in circulation the $150,000,000 gold reserve and the government assets in our national treasury, our average amount would be $38.45 per capita, being greater than that of any prominent nation in the world. But whichever method of determining the per capita circulation is chosen, the amount is greater by nearly $15 than in the period of maximum inflation in the Civil War, and greater by almost an equal amount than in the very prosperous years of 1880 and 1881; greater also by approximately $10 than twelve years ago, and this notwithstanding the constantly increasing use of checks and other substitutes for currency.

The quantity of circulation is determined principally by four factors: First, the wealth of the country; second, the volume of its trade; third, the rapidity of exchanges, associated with what is called the efficiency of money; and, fourth, the degree in which checks and substitutes for money are used. Australia has a very large circulation, $44 per capita in gold, because its wealth in that metal is so considerable. The circulation is usually small in a poor country, such as India, which has only 62 cents per capita; or China, which has $1.06; while in a rich country like ours the circulation is near to the maximum.

The Netherlands have a large per capita circulation, $33, because of the volume of their trade. The United Kingdom has much less circulation, about $17 per capita, because the country is thickly settled and checks are almost universally employed, giving the same quantity of money a greater degree of efficiency.

It is a singular fact that the two countries having the minimum and the maximum circulation are located side by side. They are Venezuela and Colombia, in South America. The circulation per inhabitant in Venezuela is 39 cents, while that of Colombia is $222; but, strangely enough, Venezuela has a better monetary system than Colombia, because its circulation is made up almost exclusively of metallic money, while that of Colombia consists of depreciated paper currency. From this we note that the quality as well as the quantity of the circulation should be taken into account.

There are three important varieties of circulation: First, the exclusively metallic system, such as prevails in Russia and also in Turkey, where, you may be surprised to learn, they have a fairly good monetary system, notwithstanding disorder and bad government; second, a metallic circulation joined with a paper circulation, the latter being redeemable on demand in gold. This is the most common system among civilized nations. The third is an exclusively paper circulation, which, of course, is the worst. It prevails usually where there is a bankrupt treasury, or as a device to meet the exigencies of war or to hide the inefficiency of government.

The most distinctive feature of our currency may be expressed in a word, and that is its motley character. Many other features, closely connected with this one, affect our whole system. To explain in detail, we have, first of all, what are called the greenbacks, legal tender notes, amounting to $346,000,000. That amount was fixed in the year 1878. From 1862, the date of their first issue, until 1879 they were not redeemable in gold, but since that time a gold reserve has been maintained for their redemption, the amount of which was fixed at $150,000,000 in the year 1900. The next variety of currency is the national bank notes, which now amount to $726,000,000, according to the statement of December 1st last. These rest upon the security of government bonds. The greenbacks are the direct obligation of the Government. The national bank notes are indirectly the obligation of the Federal Government. Indeed, they are more than this, since, whenever a national bank note is presented to our treasury, it must be exchanged by the Government for greenbacks or other legal tender. The total amount of greenbacks and national bank notes together is $1,072,000,000. In addition to this amount, there are outstanding 564,000,000 of silver dollars, which rest in part on the credit of the Government.

On the silver dollar there is written the words "In God we trust." The intrinsic value of this silver dollar, according to the latest quotation of silver, is 42.8 cents, the remaining 57.2 cents depending upon the credit of the Government. This is semi-fiat money, and it would cause very great embarrassment in our circulation, except for the fact that it supplies the demand for currency in small denominations. In almost every country a certain amount of what is called token currency is required. The national authority assumes as its prerogative the coinage of fractional silver and derives a profit from it. For instance, in this country there is outstanding $156,000,000 of fractional silver and token coins. Only $84,000,000 in silver dollars are actually in circulation, the balance of $480,000,000 being represented by what is known as silver certificates. These are mostly in denominations of one, two and five dollars. The national banks are forbidden to issue bills below $5, and the greenbacks, which are legal tender, are not issued below $5. Our people very much prefer to handle bills rather than coin, so in providing denominations of $1, $2 and $5 the silver certificates are very useful.

There is a very great difference in the customs which prevail among different peoples. I remember at one time doing a little shopping in the city of Paris, and when I received my change after making purchases I had a large number of five-franc pieces, nearly equivalent in value to one of our silver dollars. It seemed like a load to carry, but I was in a measure consoled on looking them over to find I had on one piece or another the head of every sovereign who had ruled in France since 1800: Napoleon I, Louis XVIII, Charles X, Louis Phillippe, etc. The deceased king of the Belgians was also represented. It was very inconvenient to use these coins, but among the French people who were accustomed to them they were not regarded as a burden. This illustrates, I may say further, the differences among people created by custom, which differences extend to the circulation of money in use, whether metallic or paper, and to the banking system as well.

The best feature of our currency system I have not yet mentioned. We have in this country $1,700,000,000 of gold coins, nearly one-half of the whole amount of our currency, which at the present time is approximately $3,500,000,000. The $1,700,000,000 of gold, of course, circulates anywhere on the globe, since it has

intrinsic value. You may melt one of these gold coins in a crucible into a shapeless mass, and after that operation is finished it has as much value as it had before. This would not be true of the silver dollar, which I hold in my hand. It would be worth only 42.8 cents if melted.

The principal disadvantages of our system are, first, that too much of our currency rests upon the credit of the Government. While it is true that the man who accepts a silver dollar, a silver certificate, a greenback, or a national bank note has absolute confidence in it because it is backed by the Government; nevertheless, the system by which the Government issues so large a share of the currency is a vicious one. The experiment of issuing legal tender paper money has been tried by almost every nation in the world, and it has been abandoned by practically every one of the most advanced countries except our own. Nothing but the very exceptional credit of the United States saves us from disaster because of this situation.

It is true that the greenbacks served a very useful purpose during the Civil War, but what we need now is a currency adapted to our present needs, not one based upon historical or sentimental reasons. We want the best monetary system that can possibly be devised.

Briefly stated, the argument against such issues is that when a government issues currency it is in response to its own and not to business needs. Its expenditures should, under any rational system, approximately balance its income, but when its outgo is more than its income, then there arises the temptation to issue its paper currency, and that is just the very worst thing to do. In doing this the Government uses its right to create debt, to create issues of money, just at the time when such obligations ought not to be created. In a well-managed bank or financial institution circulation is small when its assets are small, and circulation is large or should be large when its assets are large. The quantity of money should respond to the demands of trade. Now it is not likely that we shall have any great calamity by reason of this quantity of government money to which I have referred, but if there should be a crisis like the Civil War; if there should be a period in which our crops failed year after year; if there should be an enormous increase in the expenses of Government, a tremendous strain would be placed upon

our financial system. Also, there should be an adjustment of the amount of paper currency to the increase or decrease of the gold supply. If there should ever be a cessation or material decrease in the present constantly increasing production of gold, there would be such a readjustment in the course of exchanges as would necessitate considerable alteration in our currency system.

A rational currency system is one in which the quantity of money may be increased or decreased according to the demands of trade, and there is no criterion of these demands so correct as the quantity of business that is done. When there is a large quantity of wheat to be harvested and the supply of bills to pay for it is small, then is the time when it is proper and rational to issue an additional amount of currency. I do not wish to be understood as saying we should make a sudden change in our system; all changes should be made slowly. Custom, so potent in all monetary systems, has adapted itself to the present situation, however faulty it may be. But I do advocate that little by little, step by step, with no retrogression, we should move away from this system under which the Government supports with its credit $346,000,000 directly, $726,000,000 indirectly and $564,000,000 in part.

What our currency system lacks most and what any reform must supply is elasticity. The present system is one of rigidity. Those amounts of currency which I have mentioned remain practically the same year in and year out. Every one knows that the demand for currency is different at different times. More is needed at the end of the week than in the mid-week, and more at the end of the month than in the middle of the month. Then there are annual disbursements, semi-annual disbursements and quarterly dividends to be paid. At certain times in the fall the crops must be marketed. Then you have what is called in England "the autumn drain." The degree of activity in business also varies greatly in different years. The volume of currency should expand and contract automatically to meet these business demands. But under our present system the amount of currency has no elasticity, no flexibility, except that which may be brought about by imports or exports of gold and by increasing or decreasing the quantity of national bank notes, and the volume of these latter never responds to the needs of business. The law as it now stands forbids decreasing the national bank notes by more than $9,000,000 a month. Undoubtedly,

the lack of elasticity is the most serious defect in our present currency system.

What is required first of all is the enactment into law of a definite policy under which the quantity of currency can be diminished as well as increased. There is no reason for having $3,500,000,000 in circulation when it is not all needed. The result is necessarily harmful, as I can readily show you. Our bankers naturally wish to utilize all the currency in their vaults. They desire to obtain an income from their money on deposit in seasons of slack demand as well as in seasons of large demand. In any monetary system like ours the tendency is to to make the total stock of currency sufficient to meet only the minimum demands. Thus when an increased demand arises, as inevitably it must, there is a scarcity or insufficiency of currency which threatens disaster. Now what happens? After great quantities of money have been loaned out and probably used for stock speculation or in other equally doubtful enterprises, there arises an insistent demand for currency for harvesting the enormous crops of the country. And thus at this time of the year, when we need all of the money in circulation, we find that it has already been absorbed. This causes a stringency in the money market. This will always happen under an inflexible currency system like ours. You will notice, if you follow the stock market in these seasons of slack demand, that perhaps stocks have been going up. The reason is that the speculator can borrow money at cheap rates, and consequently the number of stock buyers is increased.

The principal facts or objects to be considered in the solution of this problem are, first, the need for contraction as well as expansion; second, the amount of circulation should be adjusted to the volume of trade; finally, there should be absolute security for every note issued. I may have personally a partiality for notes based upon negotiable paper and the liquid assets of banks rather than upon bonds or other permanent securities, but whichever method you have, be sure that the note will be a good one, so that, as I said a few days ago at the University of Pennsylvania, no man when he rises in the morning and reads in the newspaper that a certain bank has failed need fumble through his pocketbook to see whether he has any bills of that bank.

This problem should be faced, and the Monetary Commission

asks for the co-operation of one and all in its attempt at solution. There are numerous obstacles to a reform in our currency. In the first place, there is no other field in which the visionary or the crank has such an opportunity as in questions pertaining to money and finance. Secretary Windom remarked to me twenty years ago, "There are a great many men scattered through the country, sitting on dry-good boxes, who may not be able to manage their own business affairs, but who are convinced that they could manage the Federal treasury a great deal better than it is now being managed." There are always a great many selfish interests which come to the front when there is any attempt toward judicious reform. Senator Sherman once said he never had taken part in the passage of any financial measure with which he was entirely satisfied. It was always necessary to make concessions to some one, in order to get the bill passed.

Another difficulty is that for the last fifty years or more there has been a demand that the Government pursue a policy which would result in high prices for crops and at the same time low prices for what we buy—that is, the Government is expected to make high prices for the seller and low prices for the consumer. I do not know how any system of currency or banking can perform this miracle. People have come, however, to associate a plentiful supply of money with good times. The issue of greenbacks was accompanied by great prosperity and a period of industrial reawakening throughout the country, and from that day to this people have thought that they were more prosperous when there was a large supply of money in circulation. But in any judicious system there must be provision for contraction as well as for expansion, and this has been exceedingly difficult to obtain in the face of adverse public opinion.

Perhaps you may not have realized that in the last fifty years whenever laws relating to currency were passed, the providing of a good system was never the main object. In 1862, when the greenbacks were issued, it was not to provide a good monetary supply, but to save the very life of the Government in the midst of a rebellion. Then a year or two later came the national banks. The main object in establishing them was not to obtain a perfect monetary system, but to supersede the variety of issues of the state banks, and, in addition, to aid the sale of the bonds of the Government.

Then we come to the silver acts of 1878 and 1890. They were also passed not for the purpose of providing us with good currency, but in response to the demands of those who were shouting for more money—some of whom doubtless were anxious to pay their debts in a depreciated medium—and also in response to those who were interested in silver mines and desired to sell their output to the Government.

We must appreciate rightly all these difficulties and conflicting interests, my fellow citizens, and undertake this problem of currency reform with an eye single to the prosperity of the country, resolved to place our monetary system on a par with the very best systems of other great nations.

APPROXIMATE PER CAPITA STOCK OF MONEY IN THE PRINCIPAL COUNTRIES OF THE WORLD, DECEMBER 31, 1909.

Country.	Gold.	Silver.	Paper.	Total.
United States	$18.29	$8.21	$8.71	$35.21
Austria-Hungary	6.66	2.60	1.91	11.17
Belgium	3.05	1.22	18.27	22.54
British Empire:				
Australia	40.35	2.33	——	42.68
Canada	15.65	1.08	12.32	29.05
United Kingdom	12.54	2.65	2.55	17.74
India	——	.49	.13	.62
South Africa	6.31	2.56	——	8.87
Straits Settlements	.06	23.44	5.06	28.56
Bulgaria	1.55	.83	1.15	3.53
Cuba	18.19	2.38	——	20.57
Denmark	7.19	2.30	5.44	14.93
Egypt	16.19	1.41	.25	17.85
Finland	1.65	.17	3.97	5.79
France	23.57	10.46	3.82	37.85
Germany	17.53	3.89	5.72	27.14
Greece	.08	.19	10.58	10.85
Haiti	.67	1.67	5.87	8.21
Italy	6.82	.83	2.69	10.34
Japan	1.37	1.09	1.27	3.73
Mexico	2.76	4.12	3.76	10.64
Netherlands	11.69	9.09	9.88	30.66
Norway	5.52	1.61	3.17	10.30
Portugal	2.70	7.35	5.56	15.61
Roumania	2.66	.03	5.04	7.73
Russia	5.85	.51	——	6.36
Servia	1.82	.54	1.89	4.25
Siam	.02	7.07	.34	7.43

APPROXIMATE PER CAPITA STOCK OF MONEY—*Continued.*

Country.	Gold.	Silver.	Paper.	Total.
South American States:				
Argentina	$27.98	——	$39.33	$67.91
Bolivia	1.39	$0.28	2.22	3.89
Brazil	3.18	1.16	8.87	13.21
Chili	.03	.82	16.56	17.41
Colombia	.02	——	222.22	222.24
Ecuador	3.46	1.00	1.54	6.00
Guiana:				
British	.33	1.33	1.67	3.33
Dutch	1.00	3.00	4.00	8.00
French	2.00	1.00	6.00	9.00
Paraguay	.17	——	58.33	58.50
Peru	1.48	.52	——	2.00
Uruguay	14.09	3.91	1.55	19.55
Venezuela	.12	.27	——	.39
Spain	5.24	8.82	4.88	18.94
Sweden	4.61	1.59	6.04	12.24
Switzerland	18.48	4.09	7.82	30.39
Turkey	5.50	1.10	——	6.60
Central American States	.59	2.80	16.65	20.04
China	——	1.06	——	1.06
Total average	$5.23	$2.13	$2.90	$10.26

Treasury Department, Bureau of the Mint,
December 7, 1910.

IN INTRODUCING THE HONORABLE A. PIATT ANDREW, DR. ROWE SAID:

Senator Burton entered the university field from public life. The next speaker entered public life from the university. From his professorship of Political Economy at Harvard University he entered upon the duties of Secretary of the National Monetary Commission. He was then made Director of the Mint and is now First Assistant Secretary of the Treasury.

I have heard his former students at Harvard University express the hope that he would complete the cycle and return to university work. His thorough acquaintance with monetary questions, combined with his present official position, lend special interest to his contribution of this evening.

I have pleasure in presenting to you the Honorable A. Piatt Andrew, Assistant Secretary of the Treasury.

WHAT AMERICA CAN LEARN FROM EUROPEAN BANKING

ADDRESS BY HON. A. PIATT ANDREW,
Assistant Secretary of the Treasury.

We are confronted to-day with an opportunity for real constructive financial legislation. There has been but little such legislation in the field of finance since the early days of the Republic. We have had many revenue measures, but most of them have been framed not so much with the idea of providing adequate and equable methods of taxation as for other purposes; we have had many currency acts but most of them have tried only to revamp and rehabilitate systems which were admittedly outworn. From the time of Alexander Hamilton down to the present day the only important constructive financial legislation to which one can point is the institution of the national banking system under the leadership of Salmon P. Chase.

A great measure framed under the stress of a great emergency, the national bank act marked an important forward step. The currency of the country had for half a century consisted of heterogeneous notes which had been issued by hundreds of banks subject to the varying laws of different states and which circulated at varying rates of discount. The national bank act provided the country for the first time with a uniform currency subject to uniform laws in all parts of the country and of the same value everywhere. Not long ago I came upon a letter from Alphonso Taft, of Ohio, father of the President, written to Secretary Chase, in December, 1861, soon after the appearance of his first report recommending a national banking system, in which Mr. Taft said that if the war resulted in nothing else than the provision of the country with a uniform banking currency it would not have been fought in vain, and there was a large modicum of truth in the statement. The national bank act constitutes a very important milestone in our financial history. It rid the country of the crude and haphazard makeshifts for money with which it had been afflicted up to that date. It was the first step looking toward the unification of our banking system. It brought a considerable measure of unity into our note issue.

At that time, and even for decades thereafter, the function of note issue was regarded as the all-important function of the banks, and as a matter of fact it had been all-important up to about that time. If you look over the published statements of any of the banks in the fifties you will see that the issue of notes was the predominant business of banks. The banks extended their credit in the form of notes more largely than in the form of checking accounts upon their books.

In the decades that followed, however, this changed. Clearing houses developed and the public came more and more to use checks in making payments. Borrowers from banks less and less frequently withdrew their loans from the banks in notes or coin and more and more often left their borrowings on deposit with the banks from which they had borrowed. The important considerations for the banks were no longer the regulations and arrangements with regard to their note issues, but the provisions and practices with regard to their deposits and reserves. As decade followed decade the change in banking methods became more marked; the business of note issue became more insignificant, the business of discount and deposit more important.

This transition meant a fundamental change in the methods of banking, but it occurred so gradually that few perceived that it was taking place. Even those who pretended to write and talk upon banking for the most part overlooked the change which had occurred, and down to the very present they have continued to trace the history of bank note issue, if they were writing about the development of banking, and to discuss the reform of note issue regulations when they had it in mind to treat of banking reform.

Although about once in every decade they had witnessed a complete collapse of our banking system and had seen the mad struggle of bank against bank to get hold of reserves, and of city against city to get hold of reserves, and had seen the majority of solvent banks suspending payments for lack of a discount market, and domestic exchanges between different parts of the country suspended for lack of a transfer system, they continued down to within a year or two to discuss banking reform in the same old terms, with scarcely an illusion to the need of a discount market, a better system of domestic exchange or a more effective organization of reserves.

Many books upon banking in America and Europe have been printed, but most of them have confined their accounts to the history of the circulation privilege, and it was not in fact until the National Monetary Commission began to publish its carefully prepared accounts of European banking systems that there was available any adequate account of banking conditions throughout the world as they actually are. It takes time to digest such great masses of fresh information, but already the contrast between American and European banking organization is beginning to be widely understood, and already financial writers are beginning to call attention to the circumstances which differentiate banking in Europe from banking in America, and which help to explain why the great countries of Europe have been so free during the greater part of a century from the banking collapses with which we are still afflicted.

The banking systems of no two European countries are identical. Each has grown out of the peculiar conditions of its own past, and yet beneath the detailed peculiarities which differentiate one system from another there are certain broad outlines which are common to them all.

(1) The banks of all European countries present a much more coherent organization than our own. In no other country has individualism in banking gone so far as in the United States, with its 25,000 banking institutions, each acting for itself and without any organic relation with the rest. In every other country there is some sort of an institution which, because of its preponderant capital and resources, its relations to the government, and its peculiar privileges, is able to render peculiar services for the banks, which forms a common bond between them, and which exerts a controlling influence over their activities. It holds their reserves; it clears their mutual accounts not only within the same city, but between different cities; it furnishes an ever-ready and unfailing market for their best commercial paper, very much as the stock exchanges furnish a market for stocks and bonds. When credit expands too actively at certain times or at certain places its influence is directed to impeding the advance. If, on the other hand, on account of catastrophes or contingencies which could not have been foreseen, the banks in a given locality find themselves in difficulties, it renders assistance until the strain is relaxed and confidence restored. The functions and the details of the great Euro-

pean banks differ from one country to another, but they coincide in rendering invaluable services to the banks, and through those banks to their respective communities. In every case they perform an important function in providing at all times facilities for the exchange of money and credit between different localities, thus rendering impossible such cessations of domestic exchange as are frequently witnessed in the United States. In every case they serve as depositaries for the greater part of the reserves of the banks, thus economizing and rendering effective the otherwise idle cash of the individual banks in the same way that those individual banks render active and effective the cash which would otherwise lie idle and useless in the pockets or safes of their customers. By thus furnishing an immense reservoir of available money these European institutions provide their communities with vast resources of lending power to which resort can be made in moments of pressure or disturbance. Finally, these institutions furnish to the banks an agency for making available in times of need those sterling assets in the form of first-class commercial paper, which in the United States at such times can find no market and can only be translated into cash when they mature.

In America we have frequently in times of panic tried to imitate these European institutions by temporary expedients. The operations of our clearing houses in 1893 and 1907, and in earlier crises, were fundamentally like the ordinary functions of the great banks of England, Germany and France. With the banks as customers the clearing house associations made loans on collateral, rediscounted notes, and made the reserves of all the banks available for each other in practically the same way as do the great national banks of Europe under usual conditions. In two respects, however, our ingeniously contrived makeshifts were ineffective. First, being organized only under the pressure of an emergency, and after the situation had already become acute, they were quite unable to forestall the collapse, and second, even when the banks of a given locality were able through such contrivances to transform their commercial paper into partially liquid assets available for the settlement of local balances, they were still without any means of settling balances between different cities. Thus in each successive panic we have witnessed the disgraceful spectacle of the banks in

different cities endeavoring to fortify themselves at the expense of banks in other localities, with a resulting general collapse of exchange, and widespread suspension of payments, a condition of affairs which could really not be conceived of in any country of Europe.

(2) In the general treatment of reserves the banking arrangements of European countries differ fundamentally from our own. The reserves are far more available, mobile and alive. Our national banking law differs from the banking laws of all other countries in requiring a proportionate minimum of cash to be held in useless and inviolate idleness against all deposits. This rigid and unreasonable requirement has been copied in greater or less degree in the banking laws of our states, but it has no counterpart elsewhere in the world. It fixes an uncompromising limit to the expansion of loans and discounts, prevents the banks from extending their credit when it is most needed and deserved, and so inhibits the reserves of the banks from really serving as reserves. The reserves of European banks are much more effective than our own however, for the further reason, to which allusion has already been made, that in European countries all of the cash aside from the till money is left in the custody of the central institution, and can therefore be better administered to serve the fluctuating demands of particular seasons and different localities, than it possibly could be when in the custody of thousands of separate firms. Moreover, as the banks in those countries are accustomed to consider the balances held for them by their central institutions as equivalent to cash actually held in their own vaults, when a bank requires larger reserves because of increasing credit demands it can easily effect such increases by transferring to the central institution some of its commercial paper or bills receivable in exchange for an increased balance upon the books of the central institution. The reserves of European banks are thus peculiarly mobile, not only because the law prescribes no rigid minimum, but because they are consolidated, and above all because the banks are able at any time within reasonable limits to transform any solvent assets into available reserve funds.

(3) Another respect in which the drift of the world's banking is in a different direction from that of this country concerns the matter of note issue. The tendency of note issue regulations in every other

country is toward concentration in its control. In France the Bank of France alone for more than sixty years has been the sole note issuing institution; in England the Bank of England issues all but a fraction of one per cent of the outstanding notes; in Germany there remain only four note issuing banks aside from the Reichsbank; in Italy, Switzerland, Sweden and Japan, the note issue privilege has within recent years tended to be placed in the hands of a single institution. The importance of the question of note issue has doubtless been much exaggerated by writers in most countries and the question of the proper regulation of the issue privilege which was formerly the principal problem in banking legislation has ceased to have the importance which it used to command. The main reason for the drift of the world toward concentration in the control of the note issue doubtless lies in the opportunity which it offers for better adaption of currency supply to currency demand, for stronger control over credit expansion, and for wiser and more immediate relief in times of emergency or unsettlement.

Such are some of the features which are common to the banking systems of all of the important countries of Europe. It would be preposterous to suppose that we in America can solve our banking problem in the same way that any other country has solved it. It would be equally unreasonable in seeking a solution for our own difficulties to overlook those features which are common to the banking systems of all other countries and which are absent from our own. It would probably be considered unwise for this country to establish an institution like the Bank of Russia, owned and controlled by the Government, and it would probably be deemed equally unwise to consider the creation of a vast institution like the Bank of England, which is not in any way subject to governmental examination, regulation or control. It is unlikely that our people would ever be willing to establish an institution like the Bank of France or the Bank of Germany, which compete with existing banks and perform many of the functions which the individual banks perform, and for the same reason it would probably be generally regarded as inexpedient to attempt the revival of such institutions as the First and Second Banks of the United States. The problem which confronts the Monetary Commission and which confronts our country is to devise a system which will embody many of the valuable fea-

tures common to the banking systems of other countries, but which at the same time will be thoroughly consistent with, and will naturally grow out of the traditions and conditions out of which our present banking arrangements have developed.

This is the great constructive problem which Senator Aldrich and the Monetary Commission have before them, a problem formidably complex and of untold ramifications. It requires the most persistent and dispassionate thought, and the wisest counsel from all parts of the country. In helping now to find the appropriate solution, and later in helping to educate the community so as to secure its adoption, the universities, chambers of commerce, associations of bankers and economists, and the intelligent press throughout the country are in a position to render invaluable aid.

IN INTRODUCING THE HONORABLE GEORGE E. ROBERTS, DR. ROWE SAID:

It has become more or less of a tradition with those interested in the currency problem to refer to the present Director of the Mint whenever any peculiarly difficult or complex currency question arises. He requires no introduction to an audience of which so large a percentage is composed of persons who have given special study to the currency question. I need but mention the name of Honorable George E. Roberts, Director of the Mint.

Address by Hon. George E. Roberts,

Director of the Mint, Washington, D. C.

Every effort to reform our monetary system in the past has been embarrassed by the apparent necessity for disposing of our present complicated system—of somehow getting rid of the many different kinds of money in circulation. It seems to me, however, that the lapse of time and growth of the country have greatly simplified the situation.

It does not appear that there is any pressing occasion to deal with the United States notes and silver certificates at all. They are being rapidly absorbed by the retail trade, and there is no probability that they will ever again embarrass the treasury. Since June 30, 1900, the country has absorbed $337,000,000 of notes in the denominations of ones, twos and fives, and the demand has not been fully satisfied at that. The total amount of United States notes and silver certificates now outstanding in denominations above five dollars is only about $250,000,000. They are being reduced to the smaller denominations as fast as the treasury can lay hands on them, and at the present rate will all be absorbed in the next five or six years if the treasury can get them. In other words, the entire volume of credit notes which are a charge upon the treasury have been practically reduced to small change, are scattered from ocean to ocean, and no considerable amount of them can ever be gathered together at once. Whatever problem these notes ever presented has been solved by the growth of the country. They have become a negligible quantity. It is only a matter of time until they are all reduced to ones and twos, and ultimately to ones.

I do not see that the outstanding national bank currency need be disturbed at this time, and there are reasons for not dealing with it now. In the first place, that would involve refunding the two per cent bonds at a higher rate, and in the second place it would make a vacuum of $700,000,000 in our monetary stock which would have to be filled. There is no harm in having a part of the currency based upon public securities if the elastic element is large enough. In most foreign countries a portion of the currency is based upon

securities. If future bond issues are placed upon an investment basis and without the banking privilege, the present bond-secured currency will be a steadily diminishing factor in the whole stock.

The fundamental defect in our currency system now is this fact that there is no element in it that is readily responsive to the fluctuating needs of the country. It has seemed to a great many people that if all our money was "good," and the supply increasing from year to year in what appeared to be an adequate amount, nothing more was required. Nobody can say that a monetary stock of $35.00 per capita is not on general principles large enough, or that an increase from $28.00 to $35.00 in ten years is not enough. That is not the point of the controversy. The contention is for an elastic element in the currency, and elasticity means contraction as well as expansion. There must be contraction after expansion in order to regain the power to expand again.

Then, again, many people have emphasized the view that it is the exclusive function of the Government to furnish the money of the country, and that the banks should have nothing to do with the supply; that they should simply receive money on deposit, and loan it or pay it out on demand. This sounds plausible, for undoubtedly it is the function of the Government to define what shall be legal tender, and to supervise and safeguard the currency supply, but neither the Government nor any other body can determine in advance how much money will be required from time to time. No authority can determine how much money the people of this country will call for in the year 1911. Nobody can tell within hundreds of millions of dollars what the volume of business will be next year, or what proportion of that business will be handled by means of private instruments of exchange and what portion will require cash; nor can any one tell how much of the $15,000,000,000 of bank deposits may be called for in cash at any time. All of these demands are uncertain and fluctuating, and they are directed, not to the Government, not to the offices of the treasury, but to the banks. It is the province of the Government to supervise the supply, but the demand actually falls upon the banks, and the supply must be afforded through the banks.

The fact is that the great bulk of the payments in a country like the United States are not made in money, but by means of bank credits. Money has become the small change of the business world.

The drafts and checks that represent the payments of commerce meet in the clearing houses and practically offset and cancel themselves. That is the way business is ordinarily done, and the supply of money in the country adjusts itself to this method. Nine-tenths of the so-called bank "deposits" are not made in money, but are simply credits that arise in the exchanges, and if the banks are called upon to liquidate any undue proportion of them at once it simply cannot be done; we fall into just such a deadlock as we had in 1907.

The South, for example, at this season of the year, by the sale of its cotton crop is creating heavy "credits" or "deposits" in New York and other cities. In the usual order of events these will be drawn upon to pay for the South's purchases outside, and the entire exchange will be effected by the handling of comparatively little money. If the South should attempt to withdraw all of these "deposits" in cash it would disturb the financial equilibrium of the whole world.

So when a man says that he does not believe in an elastic currency, or that if all our money is as good as gold nothing more is required, or that the banks should have nothing to do with issuing currency, he overlooks the fact that the business of the country is not done with gold, or with any kind of money, but by means of bank credit; and when this credit receives a shock and the entire fabric of business affairs depending upon it totters to a fall, there is no way to prevent widespread disaster except by supporting it with some higher form of credit.

We have about $15,000,000,000 of bank deposits in the United States, and only about $3,000,000,000 of money in the country all told, in the banks and out. And this elimination of cash is all right; this system of clearings is sound, it is scientific, it is economical, it is permanent; but it never will be safe until it is backed up by machinery by which the banks on the basis of good assets can be supplied with lawful money to meet any demands that may come upon them. When everybody knows that such machinery exists we will be free from panics, as they are in all other countries where such machinery exists.

The problem is to provide this machinery. It is not generally regarded as feasible to enlarge the note-issuing powers of all the individual banks; if it is done it is certain to be done under such

restrictions that elasticity would be seldom effective. It is generally recognized that the weakness of our system is in its lack of organization and cohesion, and that what it wants is development along that line. One by one nearly all of the other important nations of the world have abandoned the policy of individual bank issues and have come to the central bank plan. Instead of allowing the note issuing function to thousands of scattered banks, they concentrate it in one great, strong, semi-official institution, immediately under the eye of the government, and, what is even more important, under the scrutiny of the whole financial world. In all these countries there are other banks of deposit and discount, and these other banks do the bulk of the business with the public, but back of them all and back of the whole business situation is the central bank with the power of note issue, with the ability to actually increase the supply of money in the country, to take over the assets of the other banks and make advances upon them.

In this country we lack this central, supporting factor, this great final resource. We have thousands of good banks, but they stand singly and alone, and in a time of crisis they are like an army of scattered detachments with no head and no organization. The natural impulse of all our scattered banks at the first symptom of trouble is to grab all the cash there is in sight and lock it up, and to restrict and collect loans, and of course all of these efforts simply aggravate and intensify the general distress.

And one of the most interesting features of the situation in 1907 was the way the bankers of this country, under the pressure of necessity, without the authority of law, but because no other means of relief were in sight, improvised an organization that performed practically the functions of a central bank. What they did through the clearing houses and the relief afforded point the way of natural development.

The Aldrich-Vreeland act was a step of evolution in that direction. It was avowedly a temporary measure and it has serious defects, but its defects are such as unavoidably accompany a lack of organization and central authority.

There is a want of freedom and flexibility and power which greatly limits the possible usefulness of the system. It gives a preference to bonds as security and distrusts commercial paper, whereas under proper authority and supervision commercial paper

is the ideal basis for currency issues. It relies upon a rigid, inflexible system of heavy taxation to control note issues, while under an intelligent central authority control may be exercised with judgment and discretion. It affords no machinery for dealing with our international relations, no facility for controlling the movements of gold. In all of these respects any mere clearing house plan is inferior to the systems which serve the other great commercial countries. And it is lacking in two fundamentals, viz., Any organization that is to enter permanently upon the business of lending money ought to have a paid-up capital of its own, and any organization that is to issue paper money in important quantities should maintain a gold reserve.

There is still another important respect in which the clearing house plan of organization falls short of the central institutions that have been developed elsewhere, and that is in the service which these institutions render as the fiscal agent of the treasury. The income and outgo of the United States Treasury are each now approximately a billion dollars a year. The operations of the treasury have become so great that they are often a disturbing factor in the money market. If revenues exceed disbursments the Secretary of the Treasury must put the excess back into circulation by arbitrarily depositing it in banks. He must select out of the 7,000 national banks the ones to be favored with these deposits. They cannot be distributed to all; they cannot be distributed by any general rule; and the task of determining when deposits shall be made, in what localities they shall be made and in what banks they shall be made, subjects the Secretary of the Treasury to constant importunity and criticism.

Talk about the possibility of a central bank getting into politics! What is to be said of the possibility of political influence creeping into the distribution of several hundred millions of treasury deposits controlled by one man? All other plans for currency reform leave the relations of the treasury to the money market unchanged, and this is one of the worst features of present conditions. And how are you going to change it unless you create a strong responsible agency which shall hold such relations to the treasury and to the banking situation that it can serve as an intermediary between them?

It would seem to be quite possible to develop the new system upon the framework which has been organized under the Aldrich-

Vreeland act. The board of directors of a central organization might be created by having each of the currency associations elect one member. The present powers of the local associations may be preserved, thus giving the localities a degree of independence and self-help.

The chief objection offered to a central organization is the vague possibility that it may be controlled to promote private ends rather than the general good. It has been said by persons whose opinions command attention that this would certainly occur. It was said by a great many people whose opinions were considered important that it would never do to have the Government undertake to supervise the railways. It was said to be a dangerous and impracticable concentration of authority. Nevertheless, everybody now accepts the Interstate Commerce Commission as a necessary and permanent institution; and the task of running a central banking institution of the limited functions proposed is simplicity itself compared with that of supervising all the railways of the country.

Experience has shown that large powers may safely be granted where responsibility is definitely fixed and surrounded by complete publicity. In this case there would be not only close supervision by government authorities, but the watchfulness of rival localities, each jealous for the interests of its own section.

If the loans of such an institution are confined to genuine commercial paper, representing commodities moving to market, this fear is an imaginary one. It is significant that in none of the countries where the function of supplying currency is confided to a central bank is there ever serious complaint that its powers are thus abused. There is no difficulty elsewhere in discriminating between speculative transactions and the current demands of legitimate trade, and there is no reason to believe that an institution controlled by bankers representing all sections of the United States would be unable to distinguish them.

Finally, there are going to be great banking institutions in the central cities whether we make special provision for them or not. The banking business in this country is not going to remain in its present disorganized and helpless condition.

In other words, unification and organization will go on in the banking business, whether we like it or not. The question is, shall we recognize the tendency, shall we shape its development, shall we

provide the means to make it most serviceable to all sections and to all interests; shall we keep our hands on it and regulate it, or shall we permit it to develop without direction or control?

The fact is that every step of progress is attended by problems which require treatment more or less experimental; but we cannot stand still if we want to. As population increases and civilization develops and society becomes more interdependent we are obliged to provide a higher and more complex organization. The beginnings of our political institutions were in the old town meeting of New England, but you cannot govern a nation like the United States with nothing but town meetings.

The banking system is a vital part of the machinery of modern business. When its functions are interrupted the injury is not confined to the banks; all classes are affected. I recall meeting a prominent railway official during the panic of 1907 and asking how traffic was. He said: "There is no traffic; we have laid off ten thousand men." What does it mean to lay off ten thousand men, most of them heads of families, and keep a large share of them out of work for a year or more? What does it mean to break up the habits of industry and thrift in ten thousand men, and send them out to idleness, and often to become tramps and dead-beats? Raise the ten thousand to hundreds of thousands, and we no longer have merely a financial question, but a social problem. There is an obligation somewhere to perfect the organization of society so that such conditions shall at least be minimized.

And that is not all. The members of the Monetary Commission report that wherever they have gone in Europe there has appeared the keenest interest in their errand, the most cordial efforts to assist in their work, and the greatest anxiety to prevent its being a disturbing factor in affairs. They said everywhere in 1908 that business was depressed and people out of employment by thousands because of the panic in the United States. The interests of this country have become so great that such a convulsion here is felt everywhere. And so we have another and even broader interest, that this country shall no longer be a menace to the industrial peace of the world.